

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01

FEA-02 INT-08 SCI-06 STR-08 AGR-20 /211 W

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R 121556Z FEB 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 3237

INFO USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL FLORENCE

AMCONSUL GENOA

AMCONSUL MILAN

AMCONSUL NAPLES

AMCONSUL PALERMO UNN

AMCONSUL TRIESTE UNN

AMCONSUL TURIN UNN

UNCLAS SECTION 1 OF 2 ROME 02042

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: ECONOMIC PROGRAM OF GOVERNMENT PRESENTED TO LABOR UNIONS

REF.: (A) ROME 1848 DATED FEBRUARY 7, 1974

(B) ROME 1532 DATED FEBRUARY 1, 1974

(C) ROME 2004 DATED FEBRUARY 11, 1974

1. /SUMMARY:/ IN WAKE OF POLITICAL SUMMIT MEETINGS HELD LAST WEEK BETWEEN RULING DC AND OTHER PARTIES OF RUMOR CENTER-LEFT COALITION GOVERNMENT (SEE REFERENCE A), MEETINGS ALSO WERE HELD ON SATURDAY, FEBRUARY 9 BETWEEN GOVERNMENT AND LABOR LEADERS. TRADE UNION REPS HAD CALLED FOR MEETING WITH GOVERNMENT REPS
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IN VIEW OF MOUNTING ECONOMIC PROBLEMS STEMMING FROM ENERGY

CRISIS (SEE ROME 1145 DATED JANUARY 25) BUT ALSO IN VIEW OF INCREASING PRESSURES WITHIN LABOR MOVEMENT TO OBTAIN FROM GOVERNMENT CLEAR STATEMENT OF INTENT RE ECONOMIC POLICIES. MEETING BETWEEN GOI AND LABOR REPS HELD AGAINST BACKGROUND OF CLOSELY ORCHESTRATED PEACEFUL LABOR MANIFESTATIONS IN SEVERAL ITALIAN CITIES--NOTABLY MILAN AND NAPLES-- BUT ALSO AGAINST BACKGROUND OF THREAT OF NATIONWIDE GENERAL STRIKE. AS RESULT OF MEETINGS WITH LABOR REPS, GOVERNMENT ON EVENING OF FEBRUARY 9 ISSUED WIDE-RANGING STATEMENT OF INTENT WHICH SUMMARIZED BELOW AND TO WHICH LABOR SPOKESMEN HAVE EXPRESSED INITIAL "DISSATISFACTION." FURTHER MEETINGS BETWEEN LABOR REPS SCHEDULED FEBRUARY 12 AND 13 BEFORE MAKING DECISION WHETHER TO GO AHEAD WITH GENERAL STRIKE (SEE REFERENCE C) BRIEF SUMMARY OF GOI ECONOMIC ACTION PLAN FOLLOWS. /END SUMMARY./

2. /INFLATION:/ IN ADDRESSING PROBLEM OF INFLATION, GOI PLEDGES TO FIGHT RISING PRICES THROUGH "APPROPRIATE" POLICIES TO PRESERVE REAL INCOME AND TO CONTAIN GOVERNMENT SPENDING. GOI ALSO WILL SEEK TO REVERSE DETERIORATING BALANCE OF PAYMENTS SITUATION STEMMING FROM RISING COST OF OIL AND RAW MATERIALS THROUGH POLICY OF REDUCED DOMESTIC CONSUMPTION AS FOLLOWS:

(A) TO REDUCE CONSUMPTION OF ENERGY BY VARIOUS MEASURES INCLUDING ADOPTION OF GASOLINE RATIONING IN NEAR FUTURE;

(B) TO LIMIT CONSUMPTION OF BEEF AND VEAL (OF WHICH SLIGHTLY MORE THAN 1/2 OF DOMESTIC CONSUMPTION IS MET THROUGH IMPORTS);

(C) TO ANTICIPATE TIME PERIOD FOR PAYMENTS TO THE TREASURY OF A PORTION OF CORPORATE INCOME TAX WITHHOLDINGS AND TO WITHHOLD INCOME TAXES OF PROFESSIONAL WORKERS WHERE WITHHOLDING NOT ALREADY APPLICABLE;

(D) TO INCREASE NUMBER OF LUXURY ITEMS TO WHICH EXISTING 18 0/0 IVA RATE APPLICABLE; OR TO RAISE 18 0/0 RATE;

(E) TO REVISE RAILROAD TARIFFS WITH MODEST INCREASE IN SECOND-CLASS TRAVEL ACCOMMODATIONS AND GREATER INCREASES FOR FIRST-CLASS TRAVEL;

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(F) TO MAINTAIN PRESENT TARIFFS ON ELECTRICAL ENERGY CONSUMED BY HOUSEHOLDS WITHIN CERTAIN AVERAGE CONSUMPTION NORMS YET TO BE ESTABLISHED, BUT ALSO TO APPLY HIGHER RATES FOR ELECTRICITY CONSUMPTION IN EXCESS OF THESE NORMS.

3. /WAGES; PRICES, RENTS:/ GOI CITIES NEED TO DEFEND WAGES AND SALARIES AGAINST EROSION STEMMING FROM RISING PRICES, AND PROMISES TO ADOPT "FLEXIBLE" PRICE CONTROL SYSTEM--

PARTICULARLY FOR LARGE CONSUMPTION ITEMS--BEARING IN MIND NEED TO DEFEND PURCHASING POWER OF LOW-INCOME GROUPS. MORE SPECIFICALLY, GOI PLEDGES;

(A) TO ESTABLISH A FUND TOTALLING 100 BILLION LIRE TO BE USED FOR SUBSIDIZING DOMESTIC SALE PRICES OF LARGE CONSUMPTION FOOD ITEMS;

(B) TO ADOPT "FLEXIBLE" PRICE CONTROL PROGRAM AND STRICTER CONTROL OF PRICE SPECULATION;

(C) TO EXTEND EXISTING SELECTIVE RENT CONTROLS UNTIL DECEMBER 31, 1974, AND TO ESTABLISH ADMINISTRATIVE MACHINERY WITH WHICH TO SETTLE RENT DISPUTES AND WITH WHICH TO GUARD AGAINST SPECULATION INFIELD OF URBAN RENTS;

(D) TO REDUCE TAXES OR COMPENSATE FOR TAXES WHICH WOULD BE APPLICABLE TO FAMILY INCOME ALLOWANCES UNDER TAX REFORM PROVISIONS;

(E) TO APPLY SLIDING SCALE (SCALA MOBILE) SALARY INCREASES ON MORE FREQUENT BASIS TO LOWER-INCOME GROUPS THAN TO HIGH-INCOME GROUPS.....

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.....GROUPS.

4. /EMPLOYMENT:/ GOI CITES NEED TO GUARANTEE EXISTING LEVELS OF EMPLOYMENT AND PRODUCTIVITY BY SEEKING TO EXPAND EXPORTS AND BY RENDERING ITALIAN ECONOMY MORE COMPETITIVE THROUGH "SIGNIFI-
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CANT AND APPROPRIATE" SOCIAL AND PRODUCTIVE INVESTMENTS, PARTICULARLY IN MEZZOGIORNO. GOI INTENDS TO BRING ABOUT FOREGOING IN FOLLOWING MANNER:

5. /INVESTMENTS AND ECONOMIC DEVELOPMENT:/ TO ASSURE EXPANSION OF ECONOMY AND REALIZATION OF PRODUCTIVE AND SOCIAL INVESTMENTS THROUGH MULTI-YEAR FINANCING IN FIELDS OF PUBLIC TRANSPORT, AGRICULTURE, HOUSING CONSTRUCTION AND SCHOOL AND UNIVERSITY CONSTRUCTION. EMPHASIS WILL CONTINUE TO BE GIVEN TO INVESTMENTS IN /MEZZOGIORNO/ THROUGH ALREADY-APPROVED REFINANCING OF /CASSA PER IL MEZZOGIORNO/ AND THROUGH RESTRUCTURING OF "INCENTIVES" TO ENCOURAGE INDUSTRIAL INVESTMENTS IN ITALY'S UNDERDEVELOPED SOUTH.

6. /PUBLIC TRANSPORTATION:/ GOI INTENDS TO PURCHASE OVER FIVE YEAR PERIOD 30,000 NEW BUSES FOR USE ON BOTH URBAN AND INTER-CITY BUS ROUTES, TO EXPAND AND MODERNIZE STATE RAILROAD SYSTEM AND TO INCREASE INVESTMENTS FOR SUBWAY CONSTRUCTION IN ITALY'S MAJOR CITIES. GOI WILL SEEK SPEEDY APPROVAL OF 1975-1979 PLAN FOR INVESTMENTS IN NATIONAL RAILROAD SYSTEM AMOUNTING TO 2,000 BILLION LIRE.

7. /HOUSING CONSTRUCTION:/ GOI WILL SEEK APPROVAL BY PARLIAMENT OF MULTI-YEAR INVESTMENT PROGRAM DESIGNED TO BRING ABOUT MAXIMUM EXPANSION IN PUBLIC CONSTRUCTION SECTION. SHORT-TERM OBJECTIVES

BY 1975 ARE TO RAISE SHARE OF PUBLIC HOUSING CONSTRUCTION TO TOTAL HOUSING CONSTRUCTION FROM 7 TO 15 PERCENT WITH INVESTMENTS OF 700 BILLION LIRE FOR LOW-COST PUBLIC HOUSING AND FOR PUBLICLY-ASSISTED HOUSING CONSTRUCTION.

8. /AGRICULTURE:/ GOI INTENDS TO ASCRIBE PRIORITY TO ANIMAL BREEDING WITH PREPARATION OF BASIC LAW ESTABLISHING NORMS AND CRITERIA TO BE ADOPTED AND APPLIED BY REGIONAL AUTHORITIES IN FAVOR OF ASSOCIATED PRODUCERS AND ESTABLISHED COOPERATIVES. SUCH INVESTMENT TO FAVOR PLANTS OR ENTERPRISES ENGAGED IN SLAUGHTERING, PROCESSING AND STORAGE OF MEAT. GOI ALSO INTENDS TO ENCOURAGING FINANCING OF PROGRAMS IN FAVOR OF LARGE MEAT PROCESSING FIRMS AS WELL AS FEED LOT OPERATORS. INVESTMENTS FOR ABOVE ACTIVITIES IN 1974-1978 PERIOD EXPECTED TO TOTAL 218.5 BILLION LIRE, IN ADDITION TO FUNDS ALREADY MADE AVAILABLE TO REGIONS BY CENTRAL GOVERNMENT FOR THESE PURPOSES.

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9. /SPECIAL PROJECTS:/ IN ADDITION TO INVESTMENT PROGRAMS CITED ABOVE, GOI CITES NEED TO ENCOURAGE INVESTMENTS AIMED AT (A) CREATING NEW RESIDENTIAL REAS IN MAJOR CITIES--WITH PARTICULAR REFERENCE TO CITIES LOCATED IN SOUTH; (B) REFURBISHING HISTORIC CENTERS OF MAJOR CITIES; (C) CONSTRUCTING NEW UNIVERSITIES AND HOSPITALS AND CLINICS, AND (D) INVESTING IN PUBLIC TRANSPORT TO ASSIST COMMUTING WORKERS.

10. /COMMENT:/ GOVERNMENT ECONOMIC PROGRAM CONTAINS FEW SURPRISES AND IN LARGE MEASURE REPRESENTS PULLING TOGETHER OF PROGRAMS ALREADY ON DRAWING BOARDS BUT NOT YET IMPLEMENTED. NOTABLY ABSENT IN GOI PROGRAM IS DECISION ON POSSIBLE INCREASE IN PETROLEUM PRICES. LATTER ISSUE HAS BECOME POLITICAL BONE OF CONTENTION WITHIN CENTER-LEFT COALITION AND HAS BEEN COMPLICATED BY RECENT INVESTIGATIONS OF PAYOFF SCANDAL INVOLVING MAJOR PETROLEUM COMPANIES. NONETHELESS ECONOMIC PROGRAM OF GOI TO STIMULATE ECONOMY IN WAKE OF EMERGING CRISIS PROBABLY REPRESENTS AS MUCH AS CAN BE EXPECTED WITHOUT GOVERNMENT RUNNING POLITICALLY UNACCEPTABLE RISK OF INCURRING ECONOMIC RECESSION BY STRICTER DEMAND MANAGEMENT OR BY ADOPTING POLICIES (TRADE RESTRICTIONS) WHICH WOULD BE INCONSISTENT WITH GOI INTERNATIONAL OBLIGATIONS.VOLPE

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